REAL ESTATE

Vol. 3, No. 8

August 1990

OUTLOOK

A Monthly Forecast for the Economy and Real Estate

FORECAST SUMMARY

- The stage has been set for the end of the U.S. economy's long expansion. The Mideast crisis and anemic growth in the recent past indicate that a recession is imminent. The NAR forecast now includes a brief downturn, beginning in the final quarter of 1990 and ending in the first quarter of 1991. Growth in U.S. output in 1990 is expected to be only 1.1 percent, and the growth rate for 1991 is projected to be only 0.5 percent. The economy is expected to rebound nicely in 1992, expanding at a 3.1 percent rate.
- The annual GNP three-year revisions gave the forecast a new, and sharply bleaker, point of departure. Real GNP growth over the four quarters of 1989 averaged only 1.8 percent, according to the revised figures, not the 2.6 percent as had been previously reported. The revisions suggest that a recession was probably in the cards before the Mideast crisis broke.
- Sustained double-digit inflation growth, last seen after the 1979 oil shock, is not expected as a result of the current crisis, thanks in part to less dependence on oil in the U.S. economy.
- The weak economy is showing up in the housing markets, where the number of new units started fell for the ninth time in the past twelve months. The annual rate for June was 1,177,000 units, the lowest level since the end of the last recession in October 1982 and 16.8 percent below the June 1989 figure. For the second quarter, housing starts averaged 1,199,000 units, a steep 17.5 percent decline from the first quarter's rate of 1,454,000 units.
- The number of new homes sold rose for the second consecutive month in June but remains 10 percent below the rate set a year earlier. During the second quarter, new homes were sold at a 548,000 annual rate, 7.4 percent below the first quarter's rate. For the next few quarters, the increase in uncertainty about the direction of the economy is expected to dampen new home sale activity. The annual figure for 1991 is projected to be 535,000 units, almost 20 percent below the 1989 figure. Although 1992 will be a year of recovery, the annual rate will also stand below the 1989 figure.

IN THIS ISSUE

NATIONAL ASSOCIATION OF REALTORS®
REALTOR® The Voice for Real Estate™

Forecasting & Policy Analysis Division
NATIONAL ASSOCIATION OF REALTORS®
777 14th Street, NW Washington, D.C. 20005

Copyright 1990 NATIONAL ASSOCIATION OF REALTORS®

Saddam Who? Sane?

by
John A. Tuccillo
Chief Economist
and Senior Vice President
Real Estate Finance

Let's get the ugly rumors off the table right from the start. Bill Seidman did not precipitate the current Mideast crisis to raise the market value of RTC holdings in the Oil Patch. But it would be worthy of a Robert Ludlum novel if that were the real cause, wouldn't it? And that may make more sense than to believe that a national leader of a third-rate country would choose to take the *entire* world just to get the price of oil up by a third. But he has, and as a result this country is probably headed into recession by the end of this year.

In reality, recession is not rooted in Hussein's mad gamble. Rather, the oil crisis merely makes its coming more certain. In reality, the economic slowdown has developed because consumers took a hike. This expansion has been consumer driven, and so it's fitting that it is braking on a fall in consumer confidence. Between the first quarter of 1989 and the first quarter of 1990, the Index of Consumer Confidence maintained by the University of Michigan fell by nearly 20 percent. And with that fall has come a stagnation in real consumer expenditure. Since consumer spending constitutes nearly 70 percent of GNP, that change is crucial.

Why? In an economy that is still creeping forward, where interest rates and inflation (at least before the Gulf crisis) appeared under control, how can consumers be so gloomy? Well, to begin with, they look out and see their hard-earned dollars about to be siphoned off to pay for the thrift rescue and pull in their spending horns to guard against a bleaker tomorrow. And they turn to their mail to find charge account bills and loan payments and find out that it's time to pay the piper after the great spending binge of the Eighties.

Moreover, the economy is slowing down. People are smart enough to project a trend and ask themselves: The expansion has lasted eight years; will the slowdown be as long? Finally, there is the incessant drumbeat of the financial press, trying to find yet another story of economic fragility and blast this at the public. Top it all off with the insanity in the Middle East and--as Roseanne Rosanadanna would say--it's always something.

Not that this is the proverbial ill wind; there will be some winners from an oil shock recession. Clearly, oil production and the drilling products industry will get a shot in the arm even if the price goes no higher than $28 a barrel. Alternative energy fuel production will also be enhanced. The net of all these further boosts an Oil Patch economy that was already coming back. This is in fact good news for the Resolution Trust Corporation, which will see its costs cut by rising real estate values in Texas, Oklahoma and Louisiana.

The real bad news comes for those industries most sensitive to fuel prices. The recently announced hikes in airfares are the first public example, but more will come in trucking and other parts of the transportation sector. As we found out in 1973 and 1979, petroleum dominates most of this economy, so look for the effects of Mr. Hussein's aggression to show up in chemical and plastic-intensive industries.

Homebuilding gets hit two ways. On the supply side, housing uses a great deal of oil-related products, so the cost of bringing construction to the market will rise. At the same time, households will find themselves with less spendable income and will be less inclined to think of buying homes. As construction slows, building suppliers will feel the pinch, and so on and so on. That's how we get a recession.

But let's put this in perspective. We are not facing--shooting war or no--another shock like either of those of the Seventies. This time around, everyone is on our side; and even if the world caves in completely, Hussein is still demanding only a limited rise in oil prices. Yes, we will feel the pinch, but only as an intensification of the trend that was begun a year ago by nervous consumers.

The details of our current forecast can be found within. Basically, we are now predicting a mild two quarter recession at the end of 1990 and the beginning of 1991. But the recession will bring down interest rates and allow the Fed to ease up on monetary policy, allowing recovery to kick in next spring and open up full bore by the end of the year. By that time, both homebuilding and home sales will have returned to the rates we saw at the end of 1989.

The eight years of expansion that we have enjoyed are coming to a pause, not an end. We've tiptoed along a recessionary ridge for the past six months and the gentleman from Baghdad is about to nudge us over the edge. By historical standards, this will be a short, mild recession, and the economy ought to be back on its growth creep by mid-1991. In short, even though daddy's taken the T-bird away, we may yet have some fun, fun, fun.

Outlook for the Economy and Real Estate

The stage has been set for the end of the U.S. economy's long expansion. The Mideast crisis and anemic growth in the recent past indicate that a recession is imminent. The NAR forecast now includes a brief downturn, beginning in the final quarter of 1990 and ending in the first quarter of 1991. Growth in U.S. output in 1990 is now expected to be only 1.1 percent, down from the 1.8 percent rate in last month's forecast. But more significantly, the growth rate for 1991 has been severely cut, from 2.1 percent in last month's outlook to only 0.5 percent in the current forecast. The economy is expected to rebound nicely in 1992, expanding at a 3.1 percent rate.

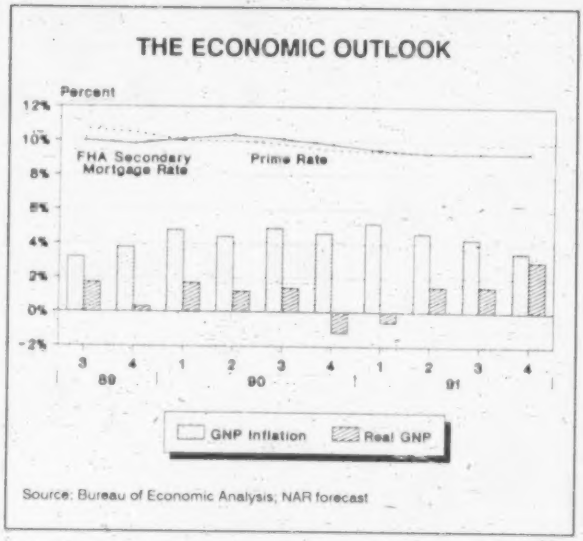
Whether the economic turbulence ahead is officially designated a recession or not is of little importance. What is important is that the economy is stringing together several quarters of extremely slow growth which will feel like a recession to many regions, industries, companies, and individuals. The housing market, for example, is one of these industries.

A New Point of Departure

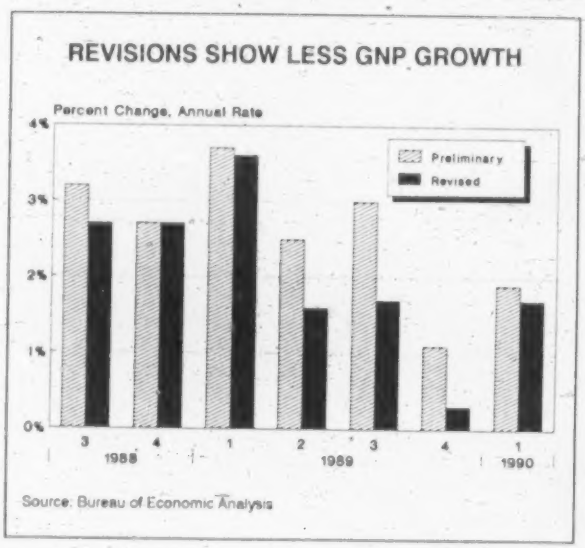
As far as the outlook for the U.S. economy is concerned, the most significant development since the last forecast did not occur on August 3 as Iraqi tanks crossed into Kuwait. While the threat of another oil shortage tipping an already-weak U.S. economy into a recession makes for a more dramatic story and certainly has its consequences for the outlook, the events of July 27 have played a more important role in shaping the outlook for the next several quarters. On that day, in its routine annual benchmark revision of the U.S. economy's production record, the government released a new picture of where the economy had been in the preceeding three-and-a-half years.

The revision gave the forecast a new, and sharply bleaker, point of departure. Real GNP growth over the four quarters of 1989 averaged only 1.8 percent, according to the revised figures, not the 2.6 percent as had been previously reported. The household saving rate in the first quarter of 1990 was revised down to 4.9 percent from 5.8 percent, implying that consumers may not have the cash on hand to increase consumption spending. Income growth was weaker than had been expected, and the preliminary estimate of second-quarter growth stood at 1.2 percent growth. Final demand -- all of the components of GNP except inventory building -- fell at 1.5 percent clip during the quarter.

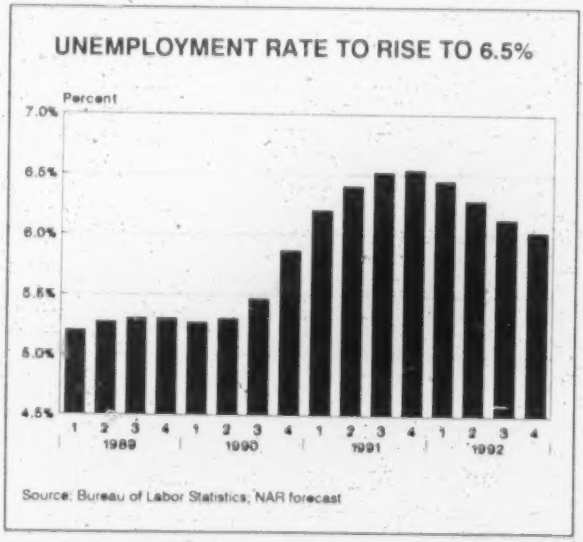
Given the new figures, a recession was probably in the cards before the Mideast crisis broke. Other indicators pointed in the same direction. The unemployment rate jumped 0.3 percentage points to 5.5 percent in July, the highest rate since August 1988. Second-quarter results for corporate profits were weaker than had been expected, continuing the softness in that category. Retail sales were weak in July, up only 0.1 percent (before adjusting for inflation). Housing starts fell again in July to an annual rate of 1,148,000 units, almost 20 percent below the rate set in July 1989.



Source: Bureau of Economic Analysis; NAR forecast



Source: Bureau of Economic Analysis



Source: Bureau of Labor Statistics; NAR forecast

A High Hurdle for the Expansion

The expansion has shown remarkable resilience in its seven-and-a-half years, and there are reasons to think that growth may continue uninterupted through 1991, although at a slow pace. Nevertheless, the economic fundamentals are quite weak today. For example, the stock market crash of October 1987 came at a time when output averaged 3.9 percent growth and employment growth averaged 2.6 percent over the preceeding four quarters. Today, real GNP growth over the past four quarters stands at only 1.2 percent, and employment growth is only 0.9 percent.

Mideast Crisis Increases the Burden

Now add to this the economic forces unleashed by the Mideast crisis. Oil prices, of course, have risen dramatically. The cost of an imported barrel of oil stood close to $16 in July; the year-end cost is now expected to average $25 -- a jump of over 50%. The NAR forecast assumes oil prices will peak at $29 a barrel in the third quarter and settle down to $25 by the end of 1992.

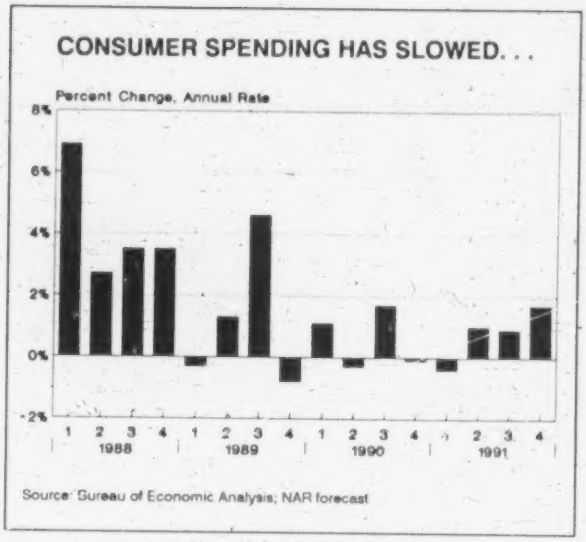
Other impacts are reflected in the forecast. For example, progress on cutting the federal budget deficit has stalled, and the negotiators have fewer options. Cuts in defense spending are not going to be as deep, and the likelihood of raising gasoline taxes has fallen sharply. Consumer confidence, meanwhile, is dropping, as are hopes of a consumer-led return to moderate economic growth.

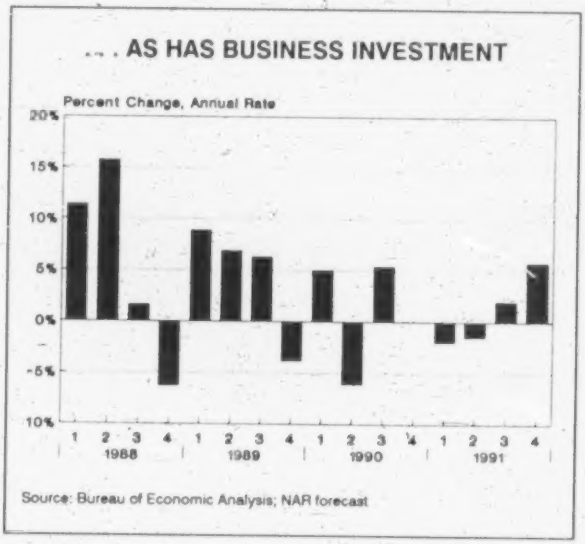
Inflation to Remain in Single-Digits

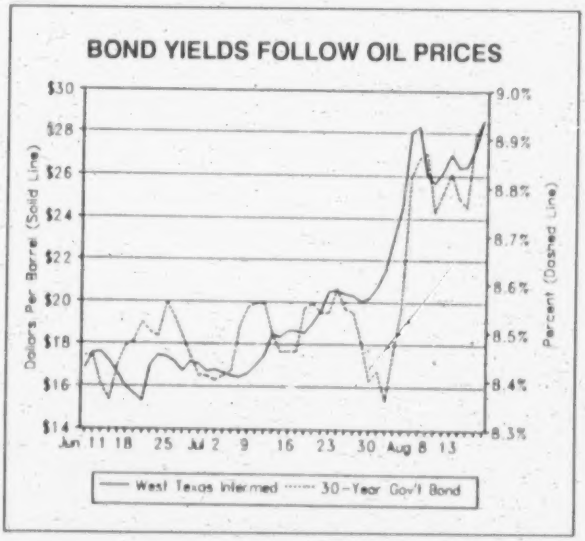
Sustained double-digit inflation growth, last seen after the 1979 oil shock, is not expected as a result of the current crisis, thanks in part to a U.S. economy that is now less dependent on oil. For example, in 1988, the U.S. required 20 percent less oil than it did in 1979 to produce $1,000 of output. And the economy is not hampered with the oil price controls of 1973-74, which restrained the market from responding with greater supplies. Although the coming months will undoubtedly bring some unpleasant inflation reports, the increase in oil prices finds a different inflationary climate today than it did in 1973, when loose monetary policy and a strong economy kept upward pressure on prices.

But the crisis puts the Federal Reserve in a difficult spot. Moves to ease credit to dampen the recessionary blow could boomerang later as fuel for higher inflation. Less wage pressure in the labor markets, due in part to the slower economy, will mitigate the impact of higher oil prices on inflation. The Fed is expected to ease in response to the underlying weakness in the economy, but not so much so as to shield the economy from the blows of higher oil prices. Easing to that extent would set the Fed back in its fight against inflation and damage one of its most precious commodities -- its credibility in the financial markets.

Although inflation is rising, it won't spiral out of control, giving the Fed some room to fight the weak economy with easier monetary policy. Uncertainty over the Persian Gulf will keep rates up in the near term, but yields are expected to fall over the next year.







HOUSING STARTS

(Seasonally Adjusted Annual Rates, in Thousands)

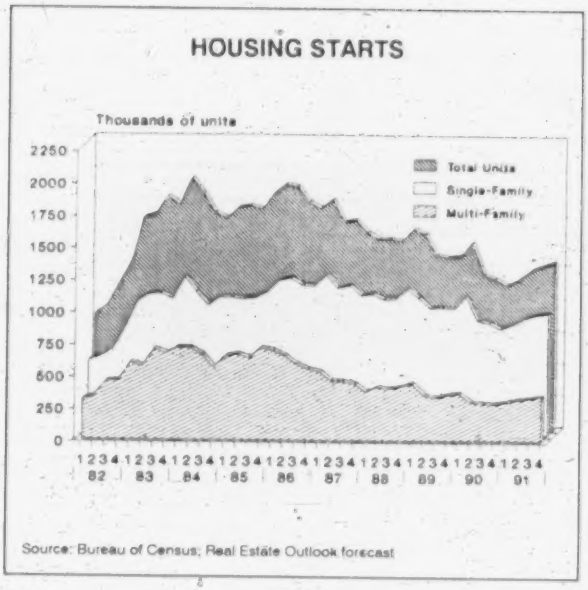
National Data

	Total	SF	2-4	5+
Jun 1989	1,414	971	55	388
Feb 1990	1,488	1,154	42	292
Mar 1990	1,307	996	35	276
Apr 1990	1,216	898	53	265
May 1990	1,205	893	39	273
Jun 1990	***1,177***	***892***	***41***	***244***
Annual Averages:				
1988	1,488	1,081	59	348
1989	1,376	1,003	55	318
Percent Changes in June 1990 since:				
Jun 1989	-16.8	-8.1	-25.5	-37.1
May 1990	-2.3	-0.1	5.1	-10.6

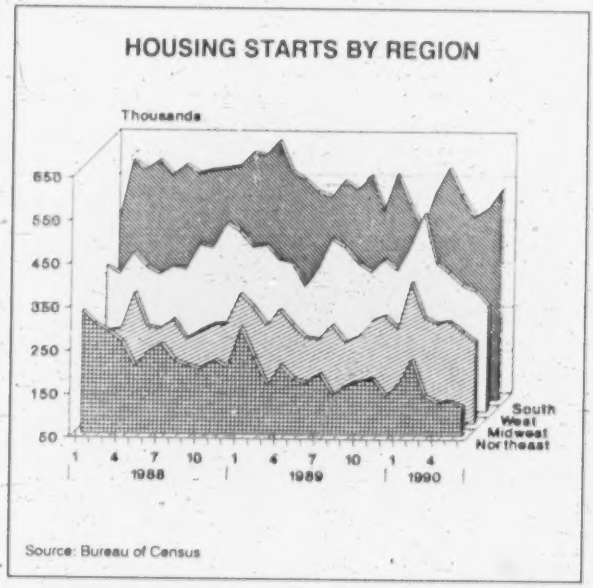
Regional Data

	Northeast	Midwest	South	West
Jun 1989	168	242	553	451
Feb 1990	224	293	581	390
Mar 1990	139	280	520	368
Apr 1990	124	284	469	339
May 1990	128	261	489	327
Jun 1990	***114***	***237***	***532***	***294***
Annual Averages:				
1988	243	274	574	405
1989	184	272	537	396
Percent Changes in June 1990 since:				
Jun 1989	-32.1	-2.1	-3.8	-34.8
May 1990	-10.9	-9.2	8.8	-10.1

Source: Bureau of the Census; Construction Reports Series C20



Source: Bureau of Census; Real Estate Outlook forecast



Source: Bureau of Census

The weak economy is showing up in the housing markets, where the number of new units started fell for the ninth time in the past twelve months. The annual rate for June was 1,177,000 units, the lowest level since the end of the last recession in October 1982 and 16.8 percent below the June 1989 figure. For the second quarter, housing starts averaged 1,199,000 units, a steep 17.5 percent decline from the first quarter's rate of 1,454,000 units.

Housing starts are projected to reach bottom in the fourth quarter of 1990 at a 1,124,000 annual rate. Lower interest rates, largely a result of the slumping economy, should modestly boost housing starts in 1991 to 1,247,000 units, and economic recovery in 1992 is expected to spur housing starts to 1,337,000 units.

Multi-family units continue to bear the brunt of the decline in housing starts. In June, multi-family units were started at a 285,000-unit annual rate, 36 percent below the rate in June 1989. The current NAR forecast calls for multi-families to reach its nadir in the fourth quarter of 1990 with a 291,000-unit rate. This would place multi-families below the low point reached during the last recession, when in the first quarter of 1982 only 311,000 multi-family units were started. The pace of construction is projected to pick up to 329,000 units in 1991 and 367,000 units in 1992.

During June, all four regions remained below their rates for housing starts of one year ago. The biggest declines were recorded by the Northeast and the West. Only the South posted a gain in June relative to May.

NEW HOME SALES

(Seasonally Adjusted Annual Rates, in Thousands)

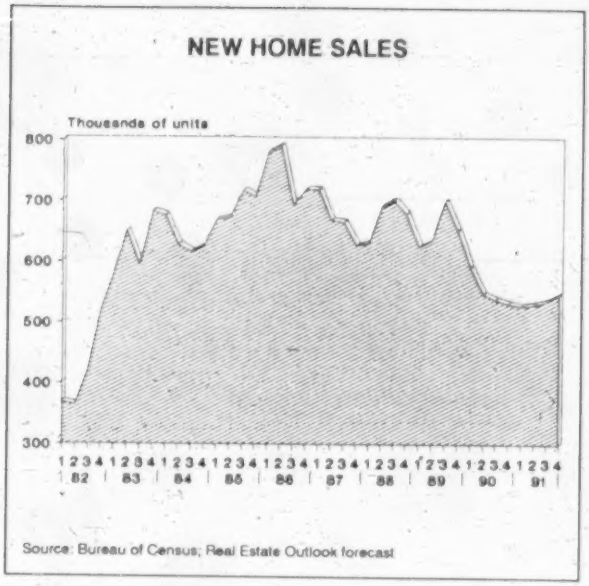
National Data

		Mo. Ago % Chg	Yr. Ago % Chg.
Jun 1989	646	-0.8	-9.8
Jul 1989	741	14.7	5.7
Aug 1989	719	-3.0	1.0
Sep 1989	638	-11.3	-7.7
Oct 1989	636	-0.3	-11.4
Nov 1989	687	8.0	5.7
Dec 1989	633	-7.9	-5.4
Jan 1990	613	-3.2	-12.9
Feb 1990	606	-1.1	-2.7
Mar 1990	558	-7.9	0.4
Apr 1990	526	-5.7	-13.8
May 1990	538	2.3	-17.4
Jun 1990	***581***	***8.0***	***-10.1***
Annual Averages:			
1988	676		0.8
1989	654		-3.3

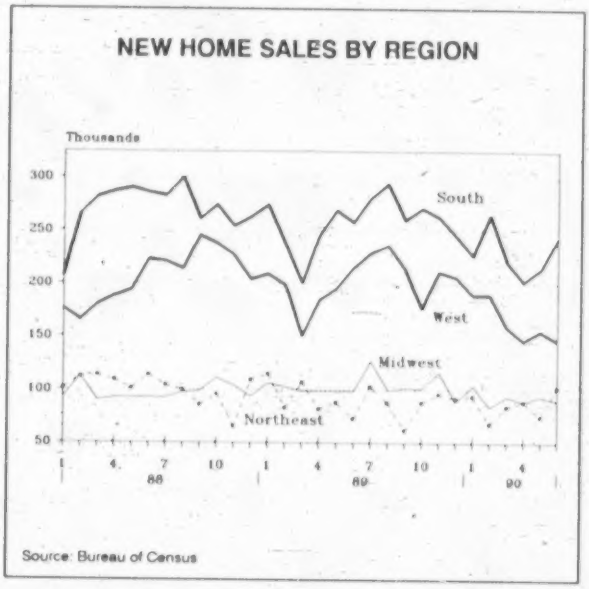
Regional Data

	Northeast	Midwest	South	West
Jun 1989	73	99	258	215
Dec 1989	92	89	245	206
Jan 1990	94	104	226	189
Feb 1990	68	84	265	189
Mar 1990	84	94	221	159
Apr 1990	89	89	202	146
May 1990	75	94	214	155
Jun 1990	***102***	***90***	***243***	***146***
Annual Averages:				
1988	101	98	271	206
1989	90	103	258	202
Percent Changes in June 1990 since:				
Jun 1989	39.7	-9.1	-5.8	-32.1
May 1990	36.0	-4.3	13.6	-5.8

Source: Bureau of the Census; Construction Reports, Series C25



Source: Bureau of Census; Real Estate Outlook forecast



Source: Bureau of Census

The number of new homes sold rose for the second consecutive month in June but remains 10 percent below the rate set a year earlier. During the second quarter, new homes were sold at a 548,000 annual rate, 7.4 percent below the first quarter's rate.

For the next few quarters, the increase in uncertainty about the direction of the economy is expected to dampen new home sale activity. The pace is expected to drop to 528,000 units during the first quarter of 1991 before recovering to 547,000 by the end of the year. The annual figure for 1991 is projected to be 535,000 units, almost 20 percent below the 1989 figure. Although 1992 will be a year of recovery, the annual rate will also stand below the 1989 figure, but by 14 percent.

The Northeast rang up a big increase in new homes sold in June, growing almost 40 percent from its May figure. New homes were sold in the region at an annual rate of 102,000 units. Nevertheless, the region's annual rate for the first half of the year still trails the 1989 rate, 85,000 units to 90,000 units.

The South also had strong growth in June relative to May, posting a 13.6 percent increase. Both the Midwest and the West experienced declines relative to June. Like the Northeast, the other three regions are running below their 1989 averages through the first half of the year. The West is the worst off, with new homes sold during the first half of 1990 almost 20 percent below 1989's pace. The South and the Midwest have each fallen about 10 percent.

EXISTING SINGLE-FAMILY HOME SALES

(Seasonally Adjusted Annual Rates, in Thousands)

National Data

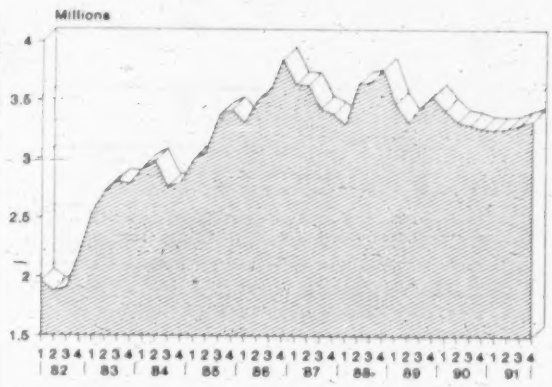
		Mo. Ago % Chg	Yr. Ago % Chg
Jun 1989	3,330	2.5	-12.4
Jul 1989	3,380	1.5	-7.4
Aug 1989	3,440	1.8	-6.8
Sep 1989	3,510	2.0	-3.8
Oct 1989	3,490	-0.6	-5.2
Nov 1989	3,560	2.0	-4.0
Dec 1989	3,560	0.0	-9.2
Jan 1990	3,470	-2.5	-5.2
Feb 1990	3,400	-2.0	-4.2
Mar 1990	3,400	0.0	-0.9
Apr 1990	3,330	-2.1	-3.2
May 1990	3,300	-0.9	1.5
Jun 1990	***3,340***	***1.2***	***0.3***
Annual Averages:			
1988	3,594		-1.9
1989	3,467		-3.6

Regional Data

	Northeast	Midwest	South	West
Jun 1989	520	930	1280	590
Jan 1990	560	940	1400	570
Feb 1990	560	890	1310	650
Mar 1990	500	910	1360	630
Apr 1990	520	920	1300	580
May 1990	520	880	1320	570
Jun 1990	***490***	***960***	***1310***	***580***
Annual Averages:				
1988	669	929	1348	643
1989	590	931	1320	617
Percent Changes in June 1990 since:				
Jun 1989	-5.8	3.2	2.3	-1.7
May 1990	-5.8	9.1	-0.8	1.8

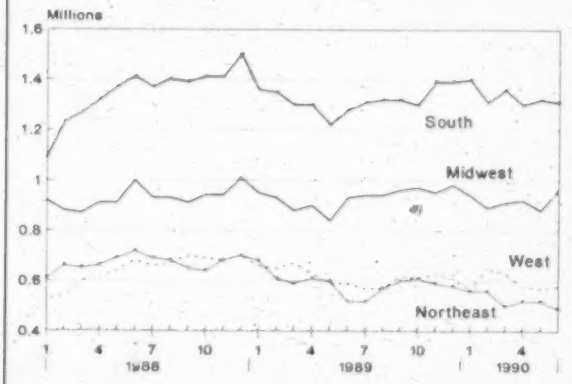
Source: Bureau of the Census; Construction Reports, Series C25

EXISTING HOME SALES



Source: NAR Economics & Research; Real Estate Outlook forecast

EXISTING HOME SALES BY REGION



Source: NAR Economics & Research

June saw only the second increase in the past nine months for existing home sales, which ran at a 3,340,000 annual rate during the month. This placed sales 0.3 percent ahead of last June's figure of 3,330,000. During the second quarter, sales dipped 100,000 units, or about 3 percent, from the first quarter's 3,423,000 rate.

Existing home sales are expected to drop for the next three quarters, hitting bottom at 3,268,000 units during the first quarter of 1991. Jitters about the health of the U.S. economy will lead homebuyers to remain cautious throughout the remainder of the year. As the economy recovers from the mild recession projected to end in early 1991 , existing home sales are expected to make a slow recovery. Besides the higher incomes and confidence engendered by the stronger economy, lower interest rates are also expected to boost home-buying activitiy. In 1991, existing home sales are expected to number 3,295,000 units, and in 1992 that figure is projected to grow by almost 4 percent to 3,408,000 units.

Only the South has outpaced its 1989 sales rate in the first half of 1990, despite a lower sales rate in June than in May. The region's rate is 1 percent higher, to 1,330,000 units. The Midwest is about 2 percent off its 1989 sales rate through the first six months of 1990, while West is off by a little more than 3 percent. The Northeast has taken the biggest blow so far this year, dropping off 11 percent with a sales rate of 52,500 units.

SINGLE-FAMILY HOME PRICES

(In Dollars)

National Data

	Median		Average	
	Existing	New	Existing	New
Jun 1989	93,500	122,800	119,000	153,600
Jan 1990	96,300	125,000	120,000	151,700
Feb 1990	95,200	125,200	118,300	150,900
Mar 1990	96,300	119,400	119,500	144,600
Apr 1990	95,600	131,000	117,800	153,900
May 1990	95,600	127,900	118,700	149,700
Jun 1990	***97,500***	***129,000***	***120,500***	***152,900***
Annual Averages:				
1988	89,200	113,400	112,500	138,900
1989	92,900	120,400	118,000	148,300
Percent Changes in June 1990 since:				
Jun 1989	4.3	5.0	1.3	-0.5
May 1990	2.0	0.9	1.5	2.1

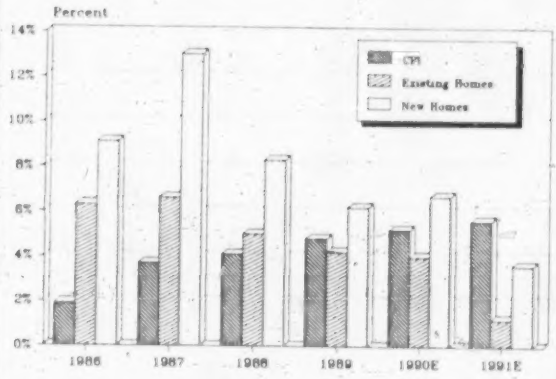
Regional Data

Median Prices for Existing Single-Family Homes

	Northeast	Midwest	South	West
Jun 1989	149,700	72,000	85,100	135,000
Jan 1990	147,100	75,600	85,300	144,400
Feb 1990	143,400	74,100	85,200	143,300
Mar 1990	148,800	73,500	86,000	141,800
Apr 1990	140,700	75,300	85,900	137,600
May 1990	141,300	73,500	85,100	141,800
Jun 1990	***148,500***	***76,200***	***87,500***	***135,400***
Annual Averages:				
1988	142,500	68,200	82,200	124,700
1989	145,100	71,200	84,400	139,800
Percent Changes in June 1990 since:				
Jun 1989	-0.8	5.8	2.8	0.3
May 1990	5.1	3.7	2.8	-4.5

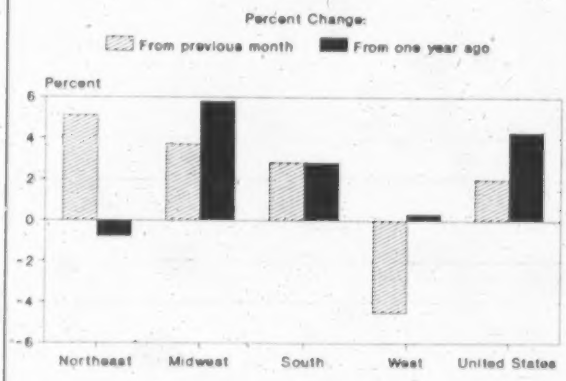
Source: National Association of Realtors
Economics and Research Division

HOME PRICES



Source: Bureau of Census; E Real Estate Outlook forecast

HOME PRICES BY REGION



Source: NAR Economics & Research; Real Estate Outlook forecast

The median price of existing single-family homes rose 2 percent in June to $97,500. The $4,000 increase represents a 4.3 percent rise over the same month a year ago. The median price for new homes grew by $1,100 during the month of June to $129,000 and now stands 5 percent above its year-ago figure. Both increases come during a time of weakness in the housing markets, when prices on individual homes are less likely to be rising. This suggests that the composition of homes being sold is changing -- the ratio of high-priced homes to low-priced homes is rising, forcing the median price up.

The average price for existing homes is rising less slowly than the median price, meanwhile. The average price rose 1.3 percent to $120,500 in the twelve months since June 1989. The average price for new homes has fallen one half of one percent in this time, to $135,400.

The median price on existing homes recorded its biggest regional gain over the past year in the Midwest. The price rose $4,200 to $76,200. The median price rose 2.8 percent in the South and 0.3 percent in the West. A -0.8 percent decline was recorded in the Northeast ahas recorded the biggest gain in the past year for the median price on existing homes.

The forecast calls for the median price on existing homes to be $96,700 in 1990 and $97,800 in 1991.

Robert D. Barr
Director of Forecasting
Forecasting & Policy Analysis Division

RECREATIONAL PROPERTIES AND SECOND HOMES: CURRENT USE AND FUTURE DEMAND

The NATIONAL ASSOCIATION OF REALTORS®, American Resort and Residential Development Association's Political Education Fund, and the International Foundation for Timesharing have just released an important study measuring the extent and characteristics of recreational property and second home ownership. The study, The American Recreational Property Survey: 1990, was undertaken by Ragatz Associates, a Eugene, Oregon consulting firm specializing in recreational property research.

Methodology

The questionnaires used in the study were developed jointly by the sponsoring organizations and the research organization. In total, four questionnaires were used: one administered to households who are recreational property owners, the other three to households which do not presently own recreational property. Multiple questionnaires were used in order to hold down the number of questions which would be asked of any one household. They were administered over the telephone by professionally trained and experienced telephone research interviewers (Mar%Stat, Inc., Eugene, Oregon), between March 2 and April 2, 1990. Calls were based on a random digit telephone list developed by a firm specializing in survey samples. The list had been purged of all known business numbers beforehand, but included numbers which would be unlisted in telephone directories. All 50 states and the District of Columbia were included in the sample. In total, some 5,636 interviews were completed.

Number of Households Owning Recreational Property

Some 7.6 percent of households resident in the United States own recreational property of some type. Using the Census Bureau's best existing estimate for 1990 (the Series B projection, for July 1, 1990, of 94.2 million households), this would indicate there are 7.2 million households owning recreational property.

An important subset of recreational property owners for purposes of comparison with prior studies are those who own second homes; that is, properties offering some type of accommodations (as opposed to raw land or camp sites). Presently, some 5.5 million households own such property, or about 5.8 percent of all U.S. households.

The number of households owning recreational property of all types has increased by about 2.4 million or 50 percent since 1973. This represents an average annual net increase of about 141,000 households. But the proportion of all households owning recreational property has changed little since 1973: from seven percent to the current 7.6 percent. Most of the growth is simply due to an increase in the number of households in the U.S. while ownership rates have increased slowly.

The number of households owning second homes--an important subset of recreational property ownership--has tripled since 1967, from 1.7 million to 5.5 million. However, the proportion of all households owning second homes has only doubled, from 2.9 percent to 5.8 percent. Again, we see that much of the growth is due to an increase in household numbers, not an increase in market penetration.

Ownership by Region

Study results show the highest rate of ownership to be in the West. Although only 23.5 percent of all recreational property owners live there, due to the relatively low population density this represents 8.7 percent of households who reside in the West. The North Central region has the lowest rate of ownership at 7.0 percent, because although 22.4 percent of recreational property owners reside there it has a relatively large overall population.

The difference between an 8.7 percent and 7.0 percent rate of ownership is not great. This lack of strong regional variation was also true of the 1973 Opinion Research Corporation study (see

Reference). That study found ownership rates varying by only about one percent from region to region.

Ownership by Marital Status

Recreational property ownership rates vary much more significantly with household characteristics. For example, while married couples are only about 56 percent of households, they represent over 78 percent of recreational property owners. Married couples are nearly 90 percent more likely to own recreational property than other households. This finding is in keeping with the 1967 Census Bureau study, which found that 82 percent of second home owners were married couples.

Ownership by Housing Tenure, Age, and Income

Ownership rates also vary significantly with housing tenure. Home owners represent nearly nine out of ten recreational property owners, but only 63.8 percent of all households. Thus, home owners are over four times as likely to own recreational property as renters. These figures are in keeping with the 1967 Census Bureau findings (see References), in which 82 percent of second home owners were primary home owners. They also closely match the 1973 Opinion Research Corporation findings, which showed that nine percent of home owners, but only five percent of renters, owned some type recreational property.

The vast majority of recreational property owners (70.2 percent) are between 35 and 64 years of age; a time of life when incomes are high and living situations relatively stable. For this reason, households in the 45 to 54 age group are the single 10-year age cohort representing the majority of recreational property owners.

Rates of recreational property ownership differ quite significantly by age group. Comparing the age distribution of recreational property owners with that of household heads as a whole, ownership rates increase from a low of 3.2 percent among those under 25 years of age to a high of 13.7 percent among those 45 to 54 years of age. However, as retirement approaches and then occurs, many households either divest themselves of recreational property or sell their primary home and move into their second home. As a result, ownership rates decline to 6.0 percent among households 65 and older. The higher rate of recreational property ownership among mature households has important implications for the future, due to the aging of the "baby boom" generation.

Most recreational property owners are not especially affluent. Over half (55 percent) have household incomes of less than $50,000 annually. The median income of recreational property owners is only $46,500 annually, or less than $10,000 above the median for all married couple households. However, the rate of recreational property ownership increases dramatically with income. Only about two percent of households with incomes under $20,000 annually own recreational property. But among households with incomes of $100,000 or more nearly one in three own.

Prior studies of recreational property ownership found strong correlations with income; however, despite the trend to higher rates of ownership among the affluent, they found most recreational property owners were middle-class.

Number of Interests and Shares of Total Property

The average household which owns recreational property has an interest in an average of 1.25 different properties. Fully 17.2 percent of recreational property owners have interests in more than one property. This compares with 4.7 percent from the 1967 Census Bureau study of owners who had an interest in more than one second home.

Because sharing of recreational property ownership eases the financial burden, 30.5 percent of households who own any recreational property share the ownership of at least one of their properties with at least one other household. Fully 18 percent of ownerships in recreational properties represent less than a five percent share of the unit or property; one-fifth (20.1 percent) of all recreational property interests represent less than a 25 percent stake in the unit or property; and, on average, each recreational property interest held by U.S. households represents a 74.5 percent share of the unit or property.

vacation home or cabin still represents the most widely held type of recreational property interest, at 41.5 percent. Attached units such as condominiums and townhomes are the second most widely held type of recreational property interest, at 15.9 percent. This is one of the new products which has become much more prevalent in the last 20 years. Vacant homesites and acreage are the third most widely held form of recreational property, at 15.1 percent. This is a dramatic drop from the early 1970s when much of rural American was being carved into recreational subdivisions.

Timeshares represent 12.7 percent of all recreational property interests. They are normally sold in one-week increments, but a "timeshare interest" represents one or more weeks at a single resort, no matter how many weeks the household may own at that resort. Recreational property owners may own more than one recreational property, and the properties may be of differing types. For example, while only 12.7 percent of all recreational property interests are timeshares, fully 15.6 percent of all recreational property owners hold a timeshare interest.

Purchase Price and Current Value of Recreational Property

The median price paid for recreational properties at the time first acquired was just $13,000 per interest. This low purchase price reflects properties which have been held for long periods of time, as well as the many households who own timeshares or other partial shares, campsites, small lots, and other low-cost types of properties. In addition, 12.5 percent of recreational property owners inherited one or more of their interests.

The median estimated current market value of recreational property interests is $45,000 per interest. Many interests represent only partial shares in the property and include low-cost products such as campsites and small lots. Based upon the difference between the current value and purchase price, it is clear that recreational property owners, as a group, have seen significant appreciation in the value of their property over the course of their ownership. In fact, the average gain per household has been $61,544 over an average ownership period of 10.6 years.

The aggregate value of all recreational properties in the U.S. is estimated at about $892 billion (7.6 percent ownership rate x 94.2 million households x $131,036 average market value per household for all households owning recreational property x 95.1 percent located in U.S.). Another $46 billion in recreational property is owned by U.S. residents but located in territories or foreign countries. This represents 4.9 percent of total recreational property market value held by U.S. residents.

Mortgages on Recreational Properties

Many recreational properties were purchased years ago, or inherited. Others are of relatively low value, and so were purchased with cash. Timeshares and campground interests typically are purchased on time contracts, but with terms of seven years or less. For these reasons, only 28.5 percent of all recreational properties are mortgaged; but, 35 percent of households who own a recreational property have at least one of their interests mortgaged.

Whether a recreational property is mortgaged varies greatly with length of ownership. For example, fully 41 percent acquired within the past five years have a mortgage, as compared with 14 percent acquired at least 11 years ago.

Due to reduction of debt with the passage of time and the moderate value of many recreational property interests, outstanding mortgage balances are relatively modest. The median outstanding balance on recreational property mortgages, per interest, is just $12,000. Again, this is primarily because many properties are partial interests: figures shown represent the share of debt borne by a single household, not all households involved in the purchase. Also, because some households have owned for many years, many recreational properties which are mortgaged may be nearly paid off.

Property Taxes

The median property tax bill per recreational property interest was just $350 during the most recent tax year prior to the survey. However, due to some properties with high values, the average recreational property was billed for

$1,335. This represents $12 per $1,000 of market value (based on a $108,810 average market value per interest). The total property tax contribution of all recreational property owners nationwide was some $11.9 billion last year.

Use of Recreational Properties

On average, recreational properties experience relatively little actual use. Total average usage comes to only 57.9 nights per year unit; 16 percent annual occupancy, or just over eight weeks of use. Usually, 26.9 nights were by someone such as the owner, a friend, or relative staying for free, and 31 nights were by renters.

Multiplying the 6.7 million recreational properties owned by U.S. residents times 31 nights per year of rental use results in a total of 208 million rental nights in privately owned recreational properties. This is in addition to any free nights that relatives, friends, and business associates may have spent at the property. Thus, privately owned recreational properties clearly contribute significantly to the recreational access of Americans.

Future Potential Demand for Recreational Property

The net number of households owning recreational property increased by an average of about 250,000 annually between 1967 and 1973. It then dropped to about 135,000 annually from 1973 to the present. Nearly half of the increase between 1973 and 1990 represents timeshare buyers. Second home units increased by an average of about 133,000 annually between 1967 and the present.

Unfortunately, pre-1990 counts for recreational properties as a whole are unavailable, as well as second home counts for the interim of 1973 to the present. Therefore, it is not possible to calculate accurately whether recreational property and second home sales are speeding up or slowing down as compared with the 1973-1990 overall pace.

Another potential source of industry growth projections might be the purchase intentions of households. Some 26.2 percent of existing households who do not currently own recreational property, or some 22.8 million, indicate they have some chance of purchasing recreational property over the next ten years. However, comparisons between intentions and actual purchase behavior from past surveys concerning recreational property and other products suggest relatively few of these households will actually purchase; probably fewer than one-fifth.

Assuming that each age group will continue to exhibit its current rate of recreational property ownership, due to the aging of the baby boom generation into the prime years for recreational property purchases, this would result in about 150,000 new recreational property owners each year, on average, over the next decade.

However, this projection of 150,000 new recreational property owners annually is probably conservative. It represents a pace only slightly above that for second homes alone for the 1973-1990 period. Nearly this many households have purchased timeshares alone during the past several years. And, of course, this projection does not take into account changes in fashionability of second home ownership, availability and cost of financing, economic trends such as higher employment or increased household income, land availability, affordability of new offerings such as timeshares and short duration club memberships, increased penetration of major hotel chains into the resort development arena, or other factors which may have a significant positive or negative impact on demand for recreational property.

References

Steve Miner (Ragatz Associates), The American Recreational Property Survey: 1990, August 1990.

Ragatz, Richard L., Ownership of Seasonal-Recreational Property Among the General Public, Opinion Research Corporation, September 1973.

U.S. Census Bureau, Current Population Reports: Population Estimates and Projections, Series P-25, No. 986, Series B projections for 1990.

U.S. Census Bureau, "Second Homes in the United States", Current Housing Reports, Series H-121, June 1969.

by
Frederick E. Flick
Division Vice President
Forecasting and Policy Analysis Division

Sarah Archibold
Division Secretary
Forecasting and Policy Analysis Division

Table 1
Characteristics Of Recreational Property Owners

Characteristic	Response
Proportion of All Households Who Own Recreational Property	7.6%
Region of Residence	
West	23.5%
South	32.0%
North Central	22.4%
North East	22.0%
Household Type	
Married	78.3%
Unmarried couple	2.8%
Single male	6.9%
Single female	8.0%
Other	4.0%
Housing Tenure	
Owners	88.8%
Renters	11.2%
Number of Children 18 Years of Age or Younger Living at Home	
None	63.4%
One	18.0%
Two	12.6%
Three or more	6.0%
Age of Household Head	
Under 25	2.1%
25 to 29	4.8%
30 to 34	5.9%
35 to 44	22.4%
45 to 54	27.5%
55 to 64	20.3%
65 to 74	12.6%
75 or over	4.4%
Number of Recreational Interests Owned	
One	82.8%
Two	11.5%
Three or more	5.7%

Table 1 (Continued)
Characteristics Of Recreational Property Owners

Characteristic	Response
Household Income	
Under $10,000	1.6%
$10,000 to $19,999	6.5%
$20,000 to $29,999	12.5%
$30,000 to $39,999	16.8%
$40,000 to $49,999	17.6%
$50,000 to $59,999	11.5%
$60,000 to $74,999	13.2%
$75,000 to $99,999	7.3%
$100,000 to $199,999	11.8%
$200,000 or more	1.5%
Approximate Median	$46,500
Proportion Owned of Each Recreational Property Unit in Which Household Holds an Interest	
Less than 5% (typically timesharing)	18.0%
5% to 24%	2.1%
25% to 49%	2.5%
50% to 99%	8.1%
100%	69.4%
Proportion of Recreational Property Owners Who Hold At Least One Partial Interest	30.5%
Types of Interests Held by Recreational Property Owners	
Detached house or cabin	51.0%
Vacant site	18.4%
Attached unit, condo or townhome	19.6%
Timeshare weeks	15.6%
Camping site or campground membership	10.2%
Mobile home	3.8%
Other	4.1%
Reasons for Recreational Property Ownership	
Recreational or vacation use	62.5%
Investment or income	37.5%
Inherited	12.5%
Seasonal living	6.3%
Trying to sell but unable so far	6.3%
Future retirement or other full-time living	6.3%

Table 2
Economics Of Recreational Property Ownership

Characteristic	Response
Purchase Price Per Recreational Property Interest	
Under $5,000	14.7%
$5,000 to $9,999	24.9%
$10,000 to $24,999	19.2%
$25,000 to $49,000	12.9%
$50,000 50 $99,999	16.8%
$100,000 to $199,999	8.1%
$200,000 or more	3.6%
Median	$13,000
Total Price Paid for All Recreational Property Interests Owned by Household	
Median	$15,000
Estimated Current Market Property Value per Recreational Interest	
Under $5,000	5.6%
$5,000 to $9,999	13.0%
$10,000 to $24,999	17.6%
$25,000 to $49,000	16.4%
$50,000 50 $99,999	16.4%
$100,000 to $199,999	19.8%
$200,000 or more	11.1%
Median	$45,000
Current Market Value of All Recreational Property Interests Owned by Household	
Median	$45,000
Recreational Property Interests With Mortgage	28.5%
Outstanding Mortgage Balance for Those Properties With a Mortgage	
Under $5,000	26.6%
$5,000 to $9,999	13.9%
$10,000 to $24,999	21.5%
$25,000 to $49,000	16.5%
$50,000 50 $99,999	13.9%
$100,000 to $199,999	6.3%
$200,000 or more	1.3%
Median	$12,000
Households with Mortgage on at Least One Recreational Property Interest	
Yes	35.0%
No	65.0%

Table 2 (Continued)
Economics Of Recreational Property Ownership

Characteristic	Response
Outstanding Mortgage Balance on Recreational Properties for All Interests	
Median (for properties with a mortgage)	$12,000
Amount of Most Recent Annual Tax Bill Per Recreational Property Interest	
Under $100	21.0%
$100 to $249	20.1%
$250 to $499	15.6%
$500 to $999	19.2%
$1,000 to $1,999	12.1%
$2,000 or more	12.1%
Median	$350
Amount of Most Recent Annual Recreational Property Tax Bill per Household	
Median	$400
Number of Nights During Prior 12 Months Recreational Property Interest Was Occupied by Persons Not Paying Rent	
0	32.4%
1 to 7	18.2%
8 to 14	9.9%
15 to 30	15.9%
31 to 60	11.2%
Over 60	12.4%
Median	10 Nights
Number of Nights During Prior 12 Months Recreational Property Interest Was Occupied by Renters	
0	83.7%
1 to 7	2.2%
8 to 14	0.4%
15 to 30	2.0%
31 to 60	1.3%
Over 60	10.2%
Median	0 Nights

U.S. Economic Outlook: August 1990

	90.1	90.2	90.3	90.4	91.1	91.2	91.3	91.4	1988	1989	1990	1991	1992
U.S. Economy													
Annual Growth Rate													
Real GNP	1.7	1.2	1.4	-1.2	-0.6	1.5	1.5	3.0	4.5	2.5	1.1	0.5	3.1
Industrial Production	0.6	3.6	1.5	-1.4	-0.1	0.8	2.1	4.3	5.4	2.6	1.0	0.8	4.2
Civilian Employment	1.0	0.7	0.2	-0.9	-0.7	-0.1	0.3	0.6	2.3	2.0	0.7	-0.2	1.1
GNP Inflation Index	4.8	4.4	4.9	4.6	5.2	4.6	4.3	3.5	3.3	4.1	4.3	4.7	3.5
Consumer Prices	8.1	3.7	5.2	6.4	6.1	5.6	5.2	4.1	4.1	4.8	5.2	5.6	3.8
Value of the U.S. Dollar	-16.0	-2.0	-16.5	-10.9	-9.7	-6.8	-1.4	4.6	-4.3	6.2	-8.5	-8.0	4.5
Percent													
Mfg. Capacity Utilization	82.6	82.6	82.8	82.0	81.1	80.6	80.4	80.6	83.9	83.9	82.5	80.7	81.3
Civilian Unemployment	5.3	5.3	5.5	5.9	6.2	6.4	6.5	6.5	5.5	5.3	5.5	6.4	6.2
Percent of GNP													
Federal Tax Receipts	20.1	20.2	20.2	20.3	20.7	20.7	20.7	20.7	20.0	20.2	20.2	20.7	20.7
Federal Expenditures	23.2	23.1	22.9	22.9	23.1	22.9	22.8	22.6	22.9	22.8	23.0	22.9	22.3
Federal Budget Deficit	-3.1	-2.9	-2.7	-2.6	-2.4	-2.2	-2.1	-1.9	-2.9	-2.6	-2.8	-2.2	-1.5
Interest Rates, Percent													
Federal Funds Rate	8.3	8.2	7.8	7.4	7.3	7.3	7.5	7.5	7.6	9.2	7.9	7.4	7.5
3-Month T-Bill Rate	7.8	7.7	7.3	7.0	6.8	6.8	7.0	7.1	6.7	8.1	7.5	6.9	7.1
Prime Rate	10.0	10.0	9.8	9.5	9.4	9.3	9.3	9.3	9.3	10.9	9.8	9.3	9.3
Discount Rate	7.0	7.0	6.9	6.8	6.6	6.5	6.5	6.5	6.2	6.9	6.9	6.5	6.5
Corporate AAA Bond Yield	9.2	9.4	9.2	8.9	8.6	8.5	8.5	8.5	9.7	9.3	9.2	8.5	8.5
30-Year Government Bond Yield	8.4	8.7	8.4	8.1	7.9	7.8	7.7	7.7	9.0	8.4	8.4	7.8	7.8
Mortgage Rates, Percent													
30-Year Fixed Rate	10.1	10.3	10.1	9.8	9.5	9.3	9.3	9.3	10.3	10.3	10.1	9.4	9.4
1-Year Adjustable	8.4	8.6	8.4	8.3	8.3	8.2	8.2	8.2	8.5	9.3	8.4	8.2	8.3
Home Sales & Starts													
Thousands													
Total Single-Family Sales (Single-family resales plus 97% of single-family starts)	4,474	4,191	4,152	4,075	4,103	4,154	4,213	4,265	4,647	4,447	4,222	4,186	4,349
Existing Single-Family Sales	3,423	3,323	3,299	3,268	3,262	3,268	3,303	3,338	3,594	3,467	3,328	3,295	3,408
New Single-Family Sales	592	548	539	532	528	531	536	547	676	654	553	535	561
Housing Starts	1,454	1,199	1,173	1,124	1,171	1,238	1,275	1,306	1,491	1,386	1,237	1,247	1,337
Single-Family Units	1,083	894	879	832	867	913	938	956	1,086	1,010	922	918	970
Multi-Family Units	371	305	294	291	304	325	337	350	405	377	315	329	367
2-4 Family Units	43	44	43	42	44	47	49	51	59	55	43	48	53
5+ Family Units	328	261	251	249	260	278	288	300	347	321	272	281	313
Mobile Homes Shipped	196	191	188	178	181	187	190	195	218	199	188	188	202
Percent change -- Year Ago													
Total Single-Family Sales	-2.3	-2.6	-5.8	-9.3	-8.3	-0.9	1.5	4.7	0.4	-4.3	-5.0	-0.9	3.9
Existing Single-Family Sales	-3.5	-0.5	-4.2	-7.6	-4.7	-1.7	0.1	2.2	2.4	-3.5	-4.0	-1.0	3.4
New Single-Family Sales	-5.6	-13.7	-22.9	-18.4	-10.8	-3.3	-0.5	2.8	0.8	-3.3	-15.4	-3.1	4.7
Housing Starts	-0.3	-11.4	-12.3	-16.6	-19.5	3.2	8.8	16.2	-8.6	-7.0	-10.7	0.8	7.2
Single-Family Units	0.2	-9.8	-11.7	-15.8	-20.0	2.1	6.8	14.8	-5.9	-7.0	-8.7	-0.4	5.6
Multi-Family Units	-1.6	-15.8	-14.2	-19.0	-18.2	6.6	14.7	20.2	-14.9	-7.1	-16.2	4.3	11.4
2-4 Family Units	-2.7	-16.9	-23.7	-20.6	1.9	6.6	14.7	20.2	-10.0	-5.7	-22.1	10.8	11.4
5+ Family Units	-1.4	-15.6	-12.3	-18.7	-20.9	6.6	14.7	20.2	-15.7	-7.3	-15.2	3.3	11.4
Median Home Prices													
Thousands of Dollars													
Existing Home Prices	95.9	96.2	97.0	97.5	97.4	97.7	98.3	98.7	89.2	92.9	96.7	97.8	100.3
New Home Prices	123.2	129.3	130.3	131.1	131.7	132.9	133.6	134.5	113.4	120.4	128.5	133.2	137.6
Percent Change - Year Ago													
Existing Home Prices	5.2	3.5	2.2	5.2	1.6	1.6	1.4	1.3	5.0	4.2	4.0	1.2	2.6
New Home Prices	4.4	8.2	8.9	5.4	6.9	2.8	2.5	2.5	8.3	6.2	6.7	3.6	3.3

Source: Forecast produced using Laurence H. Meyer & Associates' model of the U.S. economy.
Assumptions and simulations by Dr. John Tuccillo and Robert Barr.

The *Real Estate Outlook* features a monthly summary of current economic conditions, an easy-to-read forecast for the economy and real estate, and selected reports on issues affecting the housing industry. In addition, one of the Nation's top real estate economists, Dr. John Tuccillo, gives his commentary on the state of the economy and its implications for real estate markets. If you would like to subscribe to the *Real Estate Outlook*, contact the Forecasting and Policy Analysis Division at (202) 383-1131. The annual subscription fee is $25 for members of the NATIONAL ASSOCIATION OF REALTORS® and $30 for nonmembers.

REALTOR®

EQUAL HOUSING OPPORTUNITY